



ePay

Electronic Payments: Streamline P2P, Reduce Costs

A Buyer's Guide to Electronic Payment Solutions

Featuring Profiles on...

Bottomline Technologies

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Introduction

The Accounts Payable (AP) department has long suffered the stigma of being called a “cost center” or “black hole” from which money is constantly flowing out. Especially in recent times, with the spotlight turned on AP, the hole has become more noticeable. But just as every cloud has a silver lining, this added emphasis on the operations of the AP department has brought about a paradigm shift in the traditional invoice and payment management process. Increasingly, financially savvy managers understand that the AP department has tremendous potential to deliver strategic benefits around supplier relations and working capital improvements.

Traditionally, the enemy of radical improvements in the financial supply chain has been an overreliance on people and paper-based processes, which result in lengthy processing cycles, slow and delayed payments, and unhappy suppliers. However, all of this is changing. On the one side, heightened visibility has led to a growing awareness among financial managers that things are changing, with or without their approval. On the other hand, robust and easy-to-use electronic payment (ePayment) options — such as ACH and purchasing cards — are widely available in the market today, and are opening the doors for innovative AP and finance departments to take control of supplier payments and shine in the limelight.

PayStream has developed this Technology Insight Series report — **Electronic Payments: Streamline Purchase-to-Pay, Reduce Costs** — to provide an overview of the electronic payment landscape and address the following questions generally asked by finance managers:

- What challenges are organizations facing when it comes to manual settlement processes? What factors are driving the migration from paper checks to electronic payments?
- In spite of the widespread availability of ePayments and their tangible benefits, why are more than 75 percent of B2B payments settled via checks? What barriers are hindering further adoption of ePayments and how can they be overcome?
- What are the different types of electronic payments? How do ACH payments, wire transfers, and purchasing card transactions differ from one another? What benefits does each ePayment tool deliver?
- What related developments in the procure-to-pay space are impacting the growth of electronic payments? Where does ePayments fit in a broader P2P automation roadmap?
- What are the functional components of an ePayment solution? Who are the key players in this space? What solution functionality is available from these technology vendors?
- What are some of the best practices innovator companies are following in order to streamline their payment processes and increase the usage of electronic payments?

A companion report titled **Electronic Invoice Management: Your Passport to Paper-free Accounts Payable**, featuring profiles on nine leading electronic invoicing vendors, is also available on our website at <http://paystreamadvisors.com/store/details.cfm?id=284>.

Payments Convergence Conference: PayStream has created the annual ePayments Convergence event to meet the needs of sophisticated finance professionals who are aggressively seeking to improve their penetration of ePayments, and who desire high-quality information to drive decision making. This two day event is held in June each year to showcase leading practices by corporate innovators.

For more information, go to www.paystreamsummit.com

Case for ePayments Automation

Inefficiencies in Manual, Paper-Based Payment Processes

Even though automation has already delivered tangible results in the physical supply chain, automation has barely trickled into organizations' financial operations. This is especially true as it pertains to the settlement of payables and cash flow visibility.

Given the historical lack of innovation in this arena, buyers and suppliers today are experiencing a number of problems that prevent true optimization of the financial supply chain. Unlike improvements enjoyed by the automation of physical supply chain transactions, today's payables and collection processes are still primarily manual, non-integrated and inefficient resulting in numerous challenges for trading partners.

Table 1

PAIN POINTS IN THE FINANCIAL SUPPLY CHAIN

BUYER PAIN

Inability to extend payment terms and increase DPO.

Supplier inquiries into payment status tie up valuable AP resources.

Cost of printing and mailing paper checks, stop payments and re-issue costs with lost checks.

Suppliers' high cost of capital means incremental cost of goods and services for buyers.

SUPPLIER PAIN

Lack of visibility and uncertainty around payments hinders cash flow forecasting efforts.

Need to maintain excess cash as "hedge" against uncertainty increases working capital tied-up in the cycle.

Limited access to capital leads to reliance on expensive financing options like factoring and asset-based lending.

Lack of or insufficient remittance detail along with payments makes cash application a challenge.

- **Manual and Inefficient Processes:** The purchase-to-pay process has long suffered from the inefficiencies inherent to manual, paper-based processes including the lack of visibility and control over financial transactions, unavailability of timely information and high processing costs.

While buyers suffer from the high cost of making payments via checks, suppliers also face the issue of lost checks and missing or insufficient remittance detail. All these factors lead to frequent inquiries, exceptions and disputes.

- **Lack of Cash Flow Visibility:** Lack of visibility and uncertainty around cash flow is a source of major concern to suppliers. In the current environment, there still exists a great deal of uncertainty around the timing and amount of approved receivables. As a result, suppliers are compelled to maintain excess cash as a "hedge" against such uncertainties, which leads to an unnecessary increase in working capital that is tied up in the order-to-cash cycle.

Many suppliers also frequently carry a higher amount of debt on their balance sheets to fund this uncertainty. The wasted operating capital affects the entire financial supply chain, increasing the costs of working capital and reducing profitability for all the participants.

- **High Cost of Supplier Financing:** The above factors – primarily pressure from buyers to extend payables terms and uncertainty around the payment process – pose another challenge for suppliers.

Suppliers, who have limited access to capital, often have to rely on high-cost financing methods like factoring or asset-based lending to fund their working capital and improve their cash positions. The cost of financing can be significant to suppliers, which in many cases is passed on to the buyers in the form of higher cost of goods and services.

Factors Driving Electronic Payments

Payments are the final step in the invoice receipt-to-pay processing cycle. With significant effort spent on the initial stages of accounts payable processing that includes invoice receipt, workflow and matching, organizations must not experience failure in exchanging payments in a timely and cost-effective manner. Electronic payment methods allow processing of payments in a faster, cheaper, and more convenient manner than paper-based checks. Depending on the type of ePayments tools and technologies adopted by an organization, it can achieve the following tangible benefits:

“Our parent company has mandated that we move toward reducing the number of checks we issue & increase our use of ACH transfers. We will be sending out a letter to our vendors requesting their banking information.”

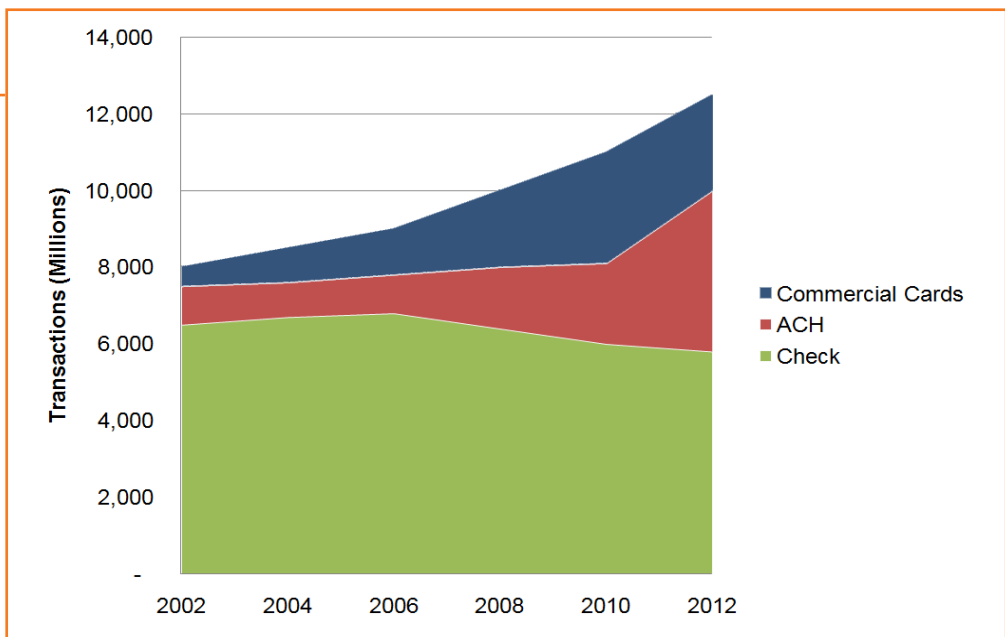
- Accounts Payable Clerk, Mid-size Manufacturing Company in North America

- Cost reduction from reduced headcount, lower administrative expenses, and decrease in printing and mailing costs.
- Reduction in the amount of paper consumed by an organization, especially with the use of purchasing cards to remove purchase orders and invoices from the equation.
- Compression of the procure-to-pay cycle resulting from the reduction in mail and check float.
- Increased ability to capture early payment discounts offered by suppliers due to shorter processing cycle times.
- Improved visibility into payments and overall spend translating to better cashflow forecasting and risk management abilities.
- Reduction in the losses incurred resulting from check fraud, theft of pre-printed checks and data entry errors.
- Positive impact on the environment from going “green” as a result of migrating from checks to electronic payments.

Given the tangible benefits electronic payments deliver over paper-based checks, it is not surprising that adoption of the various formats of electronic payments has significantly increased over the past five years, while check usage is on a decline (see Figure 1).

Figure 1
REDUCTION IN CHECK VOLUMES WITH CORRESPONDING INCREASE IN ELECTRONIC PAYMENT METHODS

Source: Federal Reserve and NACHA research



Electronic Payments

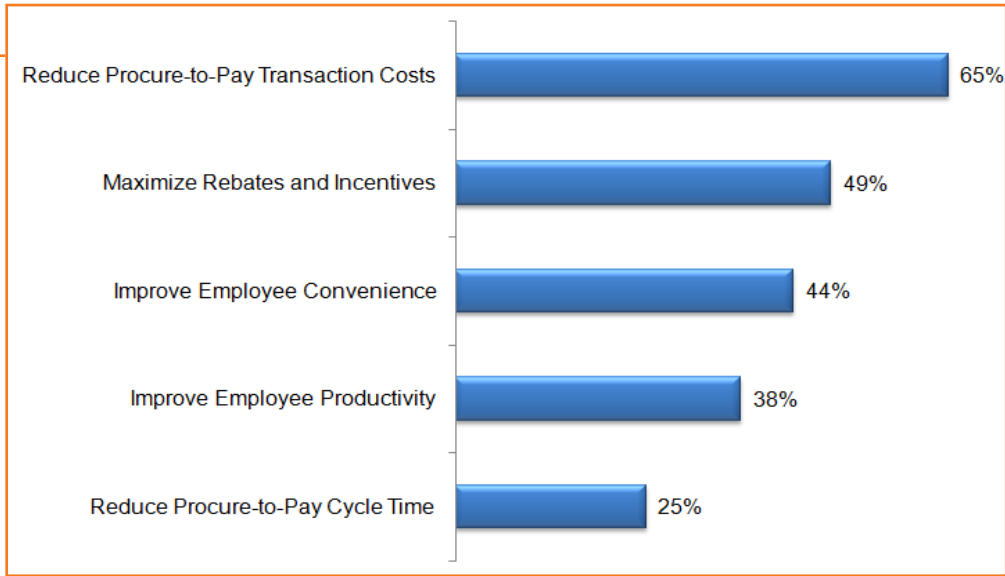
Factors Driving ePayments

Results of PayStream's "Electronic Payments and P-Cards Adoption Survey 2009" echoed the same sentiments. A majority of companies (80 percent) stated that the need to reduce procure-to-pay transaction costs was one of the biggest factors driving their efforts to increase electronic payments. This was followed by the goal to remove paper from the AP department, cited as a reason by more than half the organizations surveyed (55 percent). Additionally, better cash management (46 percent) is another important factor. Given the overwhelming interest in cost reduction and improved cash management, we believe that increasing electronic payments will be a top automation priority for organizations over the next three years.

Figure 2

TOP FACTORS DRIVING ENTERPRISES TO FOCUS ON ELECTRONIC PAYMENTS

Reducing overall payment costs emerged as the biggest driver for ePayments

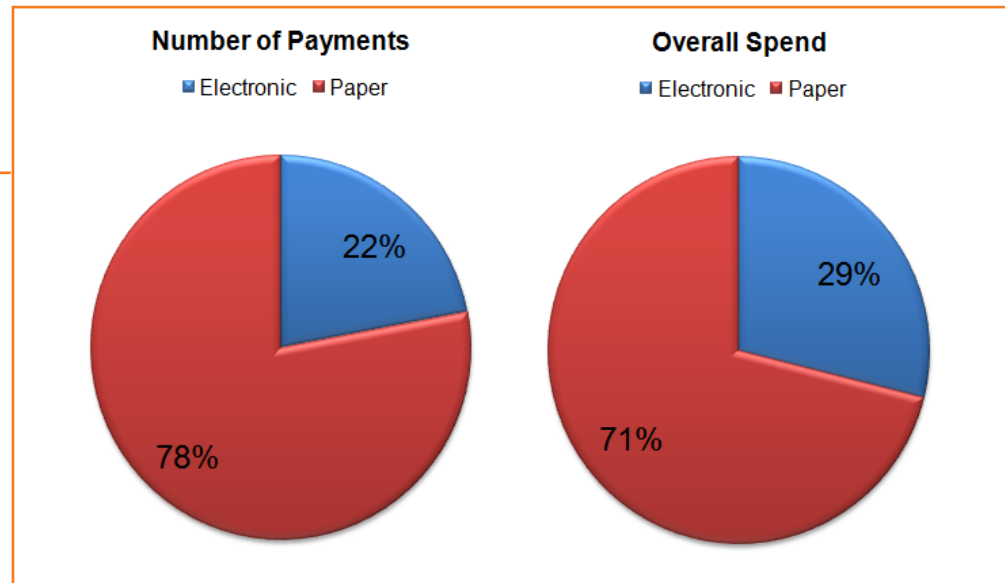


While we are excited about the growth in electronic payments, there still exists one cause for concern. Though organizations have increased the usage of ePayment methods, a typical AP department remains mired with paper-based check processing. Data from the survey reveals that, on average, 71 percent of indirect spend and 78 percent of payment transactions are still processed via checks (Figure 3).

Figure 3

PAPER REMAINS 'THE RULE', NOT AN EXCEPTION!

Organizations still rely heavily on paper when it comes to payments



Challenges to Automating the Payment Process

Paper remains ‘the’ rule and not an exception in a typical accounts payable department. What is the reason organizations still use checks so heavily? What factors are holding back the adoption of ePayments?

Supplier Resistance:

Given the fact that ePayments expedite payments, it is surprising that supplier resistance is one of the top barriers to the adoption of electronic payment methods. Persuading suppliers to change their processes to align with buyers’ needs is a costly and time-consuming process, and its success depends largely on the buyers’ ability to present a compelling value proposition to suppliers. In many cases, buyers have failed to effectively communicate the value of AP automation initiatives to their suppliers, and as a result have struggled to generate the results they expected.

Suppliers are also reluctant to pay any fees to financial institutions that may be associated with payments via electronic methods. Additionally, many suppliers struggle with proper posting of account receivables from ePayments due to the inconsistent transmission of remittance information along with ePayments. This “cash application” problem can be a significant challenge. See PayStream’s Receivables & Collection Management Report at <http://paystreamadvisors.com/store/details.cfm?id=284>.

For the supplier, payments automation should represent an opportunity to improve the efficiency of their accounts receivable (AR) processes. Therefore, buyer organizations need to be more proactive in providing supplier-driven visibility into the invoice settlement process. Given this scenario, technology providers that deliver supplier onboarding services in conjunction with the solution itself are gaining strong traction in the market.

Technical Challenges:

Until recently, a prevalent barrier to the adoption of ePayment applications was concern around their ability to easily and cost-effectively integrate with existing AP, AR, billing, cash management, supply chain, and other legacy systems.

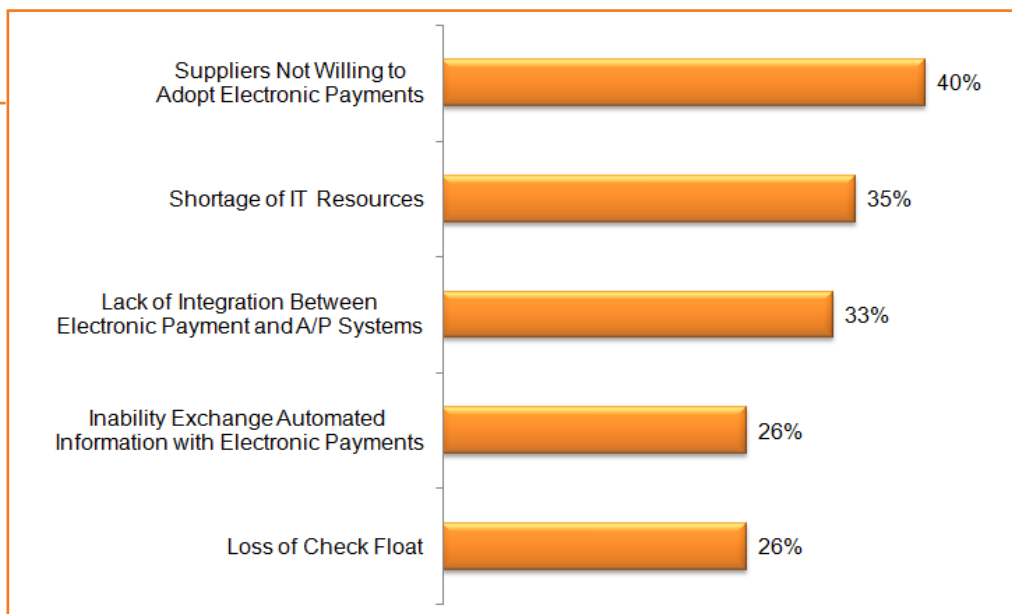
“We are currently campaigning to our suppliers to switch to ePayments. Suppliers with banking information on the invoice are automatically set up for ACH payments. New suppliers are asked to participate in ACH payments at setup.”

– Manager, F500 Dairy Manufacturing Company in North America

Figure 4

BARRIERS TO ADOPTION OF ELECTRONIC PAYMENT METHODS

The biggest barrier was the unwillingness of suppliers to accept electronic payments



However, state-of-the-art applications available in the market today that integrate seamlessly with back-end systems and provide secure data transfer protocols are enabling companies to overcome their initial resistance to automation. Most applications integrate easily with systems on the buyer and supplier sides, resulting in secure and seamless data transfer, as well as streamlined processes and more efficient workflows. Adopters can expect faster approval and cycle times, as well as better cash flow forecasting ability and vendor relationships.

"We are investigating cost savings from electronic payments and weighing this against the loss of float to determine monetary benefit. This is being done in conjunction with our bank."

– Manager, Large Manufacturing Company in North America

For those companies concerned with the upfront costs of technology, hosted solutions and Software-as-a-Service (SaaS) delivery models offer minimal implementation costs, with technology providers responsible for maintenance and upgrades. Last, but certainly not least: given the current emphasis on going green, electronic payments provide a substantial positive impact on the environment. They save trees and energy, while reducing air pollutants and solid waste.

Business Practices:

Electronic payments herald a tremendous change in the way buyers and suppliers conduct business. A natural barrier to electronic payments adoption on the supplier side is the loss of detailed remittance information. Many suppliers are concerned that if they switch to electronic payments they will not get sufficient remittance detail, which facilitates payment reconciliation. Unless ePayments transactions are properly structured, transmission of usable remittance details is limited.

The recent emergence of payment and remittance advice consolidation, however, is beginning to alleviate this issue. These services, provided by third party invoice and payment networks and processors, collect detailed payment information from payers and make it readily available to suppliers in formats compatible with their accounting systems. With many solutions, suppliers have multiple options in which they can receive detailed remittance information - email, fax or even direct integration with their accounting systems.

Payment Service Providers (PSP):

PSP's provide third party payment facilitation including translation and remittance management to foster payment collaboration between buyers and sellers.

Another reason why buyer organizations hesitate to make the move to electronic payments is the perceived loss of mail float, which is inherent to paper checks. However, the advantages associated with check float are quickly diminishing as a result of electronic check imaging, which has accelerated check presentment to a day in most cases. In fact, usage of purchasing cards delivers more float than paper checks when check imaging is factored in.

Furthermore, the cost savings from electronic payments typically outweigh the benefits of check float given current low interest rates and fast collection environments. Finally, the functionality provided by electronic payment solutions that allow buyers to control settlement with specific payment dates make check float a moot point.

Electronic Payment Types

Electronic payments come in many different flavors. Historically they have evolved into three different types:

- **ACH**, the most frequently used electronic payment method is designed for large volume credit and debit transactions.
- **Wire transfers** are perhaps the most expedient form of payment. They are often used for high-dollar, one-off transactions, as well as international payments.
- **Commercial cards** are unique as they not only support the procurement function to purchase goods at the point of sale, and in many cases without paper invoices, but also permit accounts payable professionals to automate the settlement process. They have evolved into several types, including corporate purchasing cards, travel and entertainment cards, and fleet cards that target specific indirect spend categories, as well as one/multi-card systems that target multiple indirect spend categories.

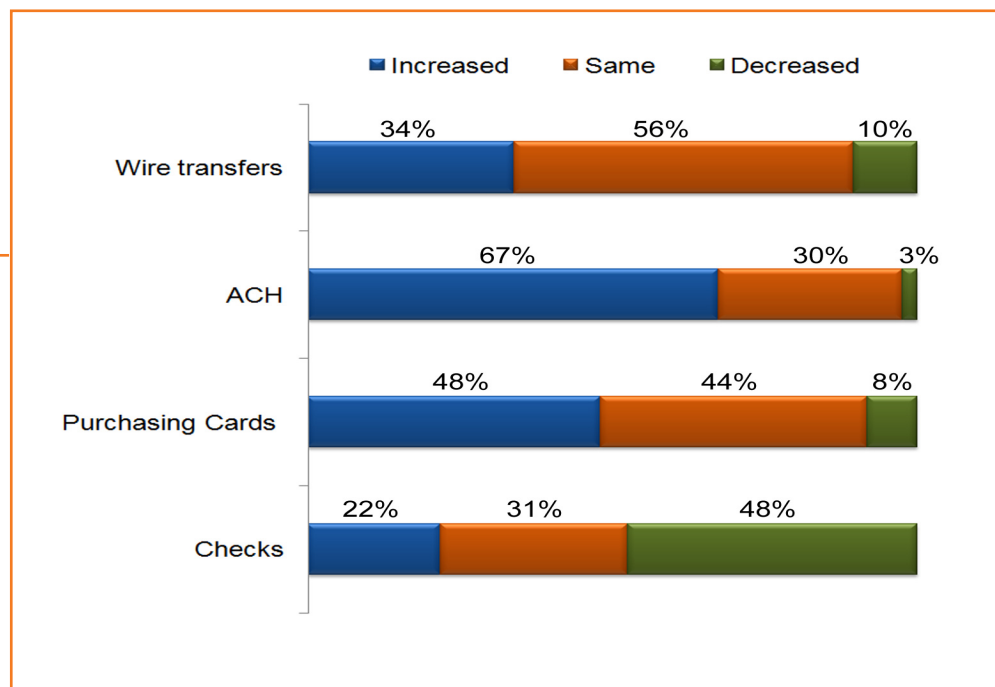
None of the above electronic payment types are mutually exclusive from one another or from paper checks. Depending on an organization's level of innovation, technological savvy and diversity of supplier base it can use a combination of the different payment types to satisfy its unique financial and business requirements. Our research shows significant changes in organizations' payments mix over the last two years (See Figure 5); checks have been on the decline with a corresponding increase in electronic payments.

Upcoming sections of this report will provide more details on the different electronic payment types and identify the benefits and challenges associated with each.

Figure 5

CHANGE IN USAGE OF ELECTRONIC PAYMENT METHODS

Electronic payments are increasing while checks are on the decline



ACH Transactions

ACH payments are electronic payments made through the Automated Clearing House (ACH) Network, which is truly a powerful system in the United States. The ACH network has extensive reach to almost every financial institution in the country, and therefore provides access to every business that has a banking account. This is a significant advantage of ACH as no other electronic network has the same reach.

PayStream research revealed that amongst the different electronic payment types available, ACH is preferred by a number of businesses. According to survey results, more than two-thirds (70 percent) of organizations have the ability to make ACH payments to their suppliers. Additionally, more than half (60 percent) of the companies that participated in our survey stated that they are taking active steps to increase their ACH ePayment programs.

Suppliers are also more willing to accept electronic payments via ACH, compared to purchasing cards, as was revealed by the survey. This is supported by the fact that suppliers do not have to pay interchange fees when it comes to accepting ACH payments.

How does ACH Differ from Card Payments?

While both ACH and corporate purchasing cards have the same objective of transferring funds electronically from the buyer to the supplier, the two payment tools differ in the way they do it. It is important to understand the differences in order to select the most suitable payment type.

- The primary difference between the two payment types is that they flow through different networks; while ACH payments are made through the automated clearing house network, card payments are processed via a commercial card network.
- ACH processing also differs from credit card processing in the sense that it does not provide real time authorization of transactions; instead, it allows funds to be electronically debited or credited to a company's deposit account within a few days.
- Unlike credit card payments, where suppliers have to pay a percentage of the transaction value as interchange fees, suppliers do not have to pay any fees for ACH. These transactions typically only involve a small fee per transaction to the buyer.
- ACH payments are settled the same day or the next day at best, taking float out of the equation. On the other hand, card payments offer a significant amount of float to buyer organizations.

Factors Driving ACH Payments

PayStream research found that owing to the following payment attributes, ACH has emerged as a favorite ePayment tool among organizations:

- **Low Cost:** ACH payments cost nothing to the supplier, while wire transfers and card payments can be expensive. Overall, ACH is the lowest cost ePayment option to both buyers and suppliers. More than half the organizations (53 percent) that participated in our survey stated that they

preferred ACH over other electronic payment options for this reason.

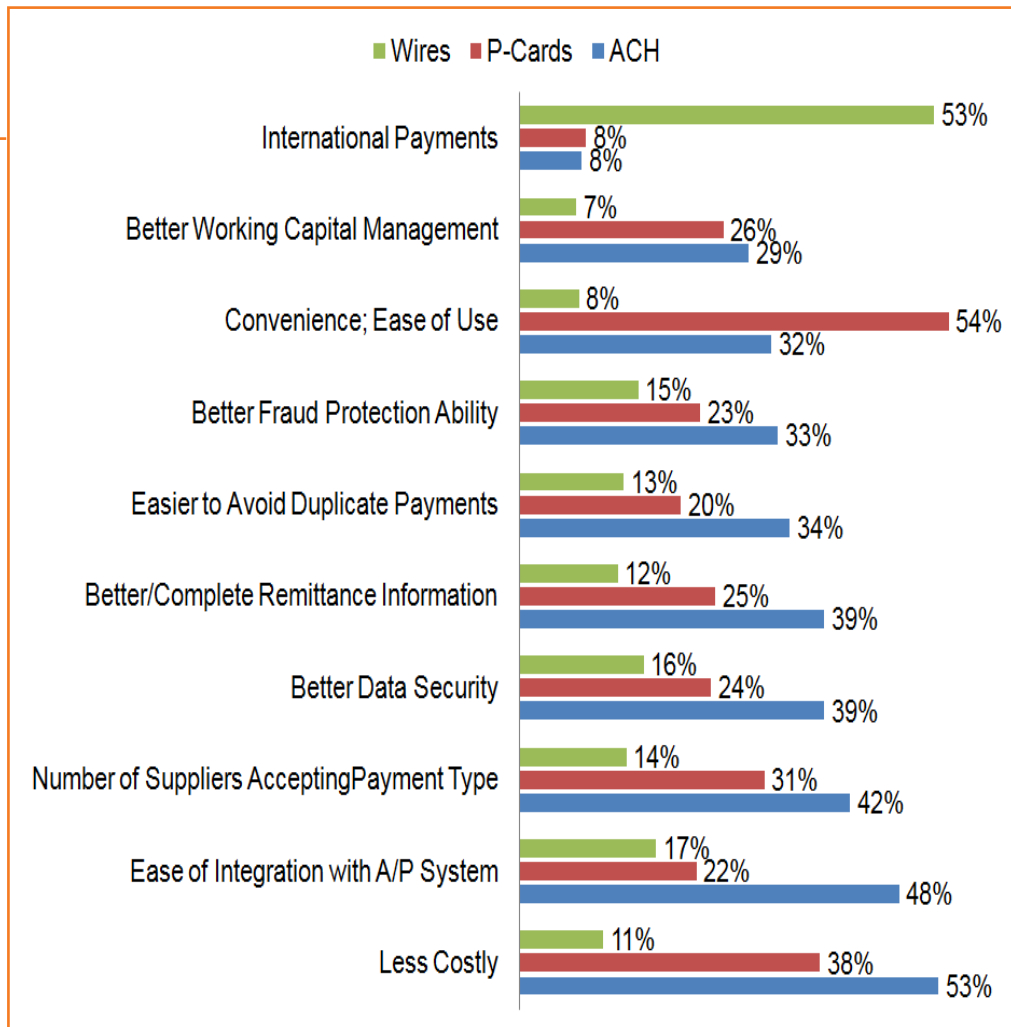
- **Ease of Integration:** Almost half the companies surveyed (48 percent) liked ACH for the ease with which it can be integrated with AP and other back-end accounting systems. Further, more than two-thirds of companies (68 percent) have already integrated their AP systems with ACH payments.
- **Supplier Acceptance:** Given that suppliers do not have to pay any fees for receiving ACH payments, it is not surprising that they are accepted by more of an organization’s supplier base than card payments or wire transfers. Almost half of the companies that participated in our survey (42 percent) validated this fact.
- **Other Factors:** Some of the other factors that emerged as driving forces for the use of ACH are data security, protection against fraud, and the ease of use of ACH payments.

See Figure 6 for more details on how ACH payments measure up against card payments and wire transfers across a range of payment attributes.

Figure 6

PREFERRED ELECTRONIC PAYMENT METHODS ACROSS PAYMENT ATTRIBUTES

ACH payments were preferred as they were low cost, could easily integrate with AP systems and were accepted by suppliers



Challenges to the Adoption of ACH

Even though ACH is a preferred form of payment across several payment attributes, the adoption of this form of electronic payment has been hampered by several factors. Our research reveals that:

- Almost half the organizations surveyed (47 percent) stated that less than five percent of their suppliers are enrolled in their ACH ePayment program. A mere one percent of innovative companies have been successful in enrolling over 80 percent of their supplier base.
- More than 40 percent of companies make less than five percent of their payments using ACH, and none of the organizations have been able to convert more than 80 percent of their payments to ACH.

The primary barriers to the adoption of ACH payments are the perceived loss of float, the challenges involved in collecting banking information from suppliers, and the limited ability to exchange remittance information.

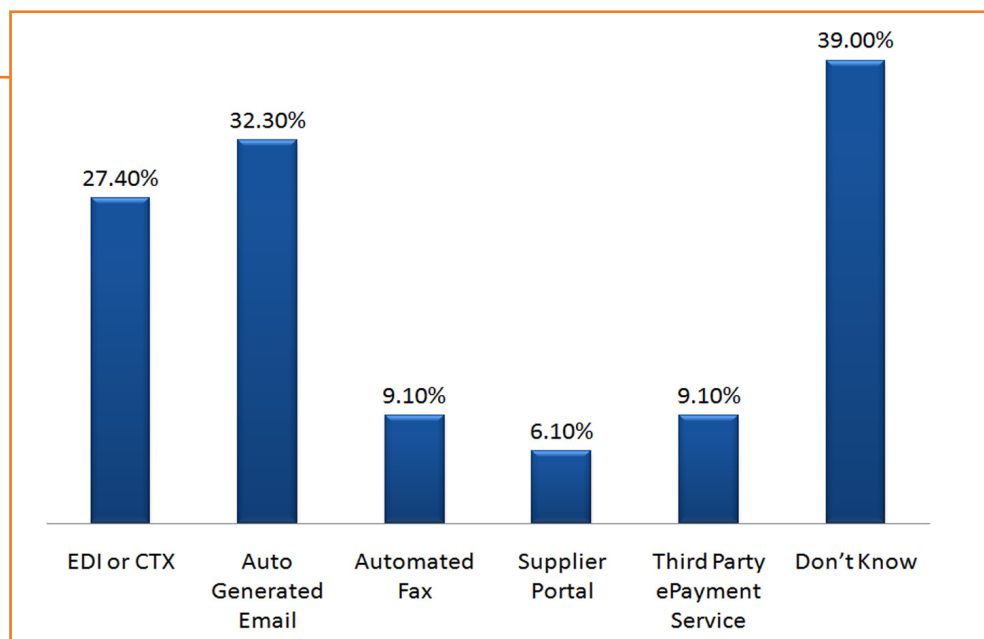
On the buyer side, organizations are faced with the challenge of collecting banking details from a number of suppliers, validating the information, and keeping track of changes to banking procedures on the supplier side. Buyers are also concerned about moving from checks to ACH due to lost check float. Suppliers on the other hand are hesitant to accept ACH payments as the remittance detail delivered along with ACH payments is insufficient, or their systems are unable to receive and manage the information delivered. Our survey shows that more than one-third of the organizations have no clear remittance exchange mechanism in place to provide suppliers with adequate details to post their books without manual handling.

Banks and technology vendors that provide ACH payment solutions need to address these issues if they wish to increase ACH share of business-to-business payments. They can do this by providing robust solution functionality that delivers remittance information in multiple formats supported by supplier systems. These should go hand-in-hand with value-added services such as supplier recruitment and management of bank account details.

Figure 7

REMITTANCE INFORMATION TRANSMISSION WITH ACH

Auto-generated email is the most widely used method of transmitting remittance information along with ACH payments



Wire Transfer Payments

A wire transfer is an electronic payment type that transfers money between two banking accounts. Bank wire transfers can be made between domestic financial institutions, and also between banks located in different countries. Transfers within the United States are made via the Federal Reserve Wire Network (Fedwire). International transfers are made using the SWIFT (Society for Worldwide Interbank Financial Telecommunication) bank wire system.

When are Wires Typically Used?

Wire transfers are not as widely used as ACH or card payments because they are considerably more expensive than other forms of ePayments. Banks can charge buyers anywhere between \$5 - \$50 to send a wire and suppliers between \$5 - \$20 to receive a wire. However, wire transfers are the most expedient form of electronic payment, and funds can be transferred from the sender's bank account to the receiver's bank account the same day or by the next day. Wires are mostly used for large dollar, one-off transactions, which need to be processed and paid immediately.

Another area where wire transfers are used is in the realm of international payments. Wires are perceived to be one of the safest ways of sending money to suppliers that are located outside the United States. More than half the organizations (53 percent) that participated in PayStream's survey stated that they preferred wires over other payment methods when it came to international settlements.

How do Wires Differ from ACH?

ACH transactions and wire transfers are sometimes confused with each other. They are both electronic transfers of money, but they are not the same type of transactions.

- Wire transfers are typically used for transferring large dollar amounts of funds between banks very quickly, whereas ACH can be used for any type of transaction.
- In the United States, wire transfers are processed through the Federal Reserve Wire Network, while ACH payments are processed over the automated clearing house network.
- Wire transfers are much more expedient than ACH payments, as they are a real-time method of transferring payments. ACH on the other hand uses a batch process, and typically there is a one to two day delay to settle ACH transactions.
- While ACH payments support remittance delivery to suppliers via addenda records, organizations typically do not receive sufficient information with their wire transfers to post the payments to the correct accounts without manual intervention.
- ACH transactions are less expensive than wire transfers, for both buyers and suppliers.

Corporate Purchasing Cards

At businesses of all sizes, finding more efficient ways to buy what the company needs is getting serious attention. The corporate purchasing card, or p-card, has emerged as a favorite tool for many companies because it cuts overhead costs and provides strong reporting and spend management tools, as well as delivering the benefit of float and earning the buying company substantial rebates when card program volume is high. Large companies with established p-card programs continually look for ways to expand and improve them, often inviting competitive bids from the card providers or issuers. Even mid-sized and small companies that do not have p-card programs are investigating them for the above reasons.

Rationale for a P-Card Program

The attraction of a p-card program is the automation and process efficiency it brings, especially to the purchase of small items, where it is difficult to justify the high overhead of using requisitions, purchase orders, approvals, matching and settlement by check through the AP process. P-cards have proven that a lot of overhead can be pared away by streamlining the process and essentially giving end-users cards they can use anywhere. However, companies do retain control over the process by placing restrictions on which merchants employees can go to and the amounts that they can charge.

Increasingly, the attraction of a p-card program is also the rebates that are provided by the issuer based on how much is spent on the p-card. In a world where payment float is disappearing owing to ACH payments and check imaging, purchasing cards represent the only payment option that still offers buying organizations the advantage of float. Finally, cards are attractive because they make it easy to document how much has been bought from a given supplier; information that can sometimes be used to negotiate price discounts based on high-volume purchasing.

P-Cards Deliver Against their Goals

Performance improvements and cost savings from p-cards are readily apparent. Table 2 highlights the average cost savings realized by enterprises as a result of the utilization of p-cards. Plastic has sliced the cost of a single procure-to-pay (P2P) transaction by nearly half. In current economic times, where companies are attempting to reduce costs to improve the bottom line, this is perhaps the most desirable attribute of a p-card program. Additionally, commercial cards, on average, lower the P2P cycle times by a third.

In addition to streamlining the P2P cycle, p-cards provide the additional benefit of incentives or rewards (cash back, etc.) from the card-issuing bank. Almost half the organizations (46 percent) participating in our research study indicated

Table 2
PERFORMANCE
IMPACT OF
COMMERCIAL
CARDS

PERFORMANCE METRIC	NON P-CARD/ TRADITIONAL P2P PROCESS	P-CARD PROCESS
Average cost to process a single P2P transaction	\$37.30	\$19.70
Average P2P cycle time	16.5 days	5.2 days

receiving an incentive varying from 0.5% to 2.0%. Further, a majority (54 percent) of the enterprises stated that due to the convenience and ease of use of p-cards, organizations choose them over any other payment method. Given the significant transaction cost and time savings, as well as the added incentive of rewards, it is not surprising that 65 percent of the enterprises participating in our research stated that they are either extremely satisfied or very satisfied with their p-card programs.

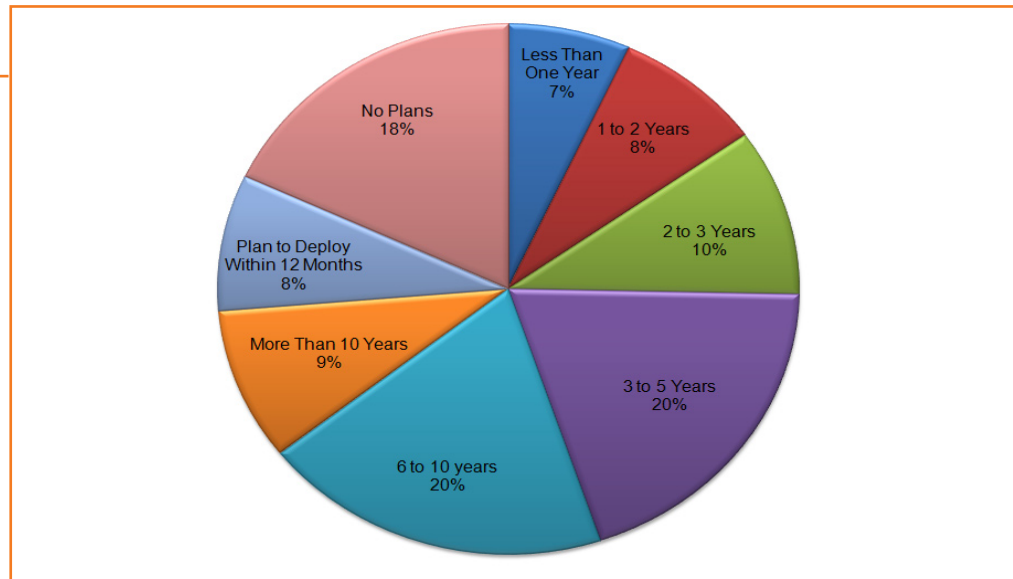
Maturity of P-Card Programs

PayStream research found that organizations are at varying levels of maturity with their p-card programs (Figure 8). Nearly half (49 percent) of the organizations have deployed p-cards for over 3 years, with an average age of 5.2 years, indicating that p-cards are a fairly mature technology solution. However, even though p-cards have been in existence for more than a decade, they capture, on average, only 9.3 percent of the enterprise indirect spend. With the cost of processing a p-card transaction nearly half of that of a non p-card transaction, an average enterprise can realize significant cost savings, as well as incentives from card-issuing banks by processing more transactions via p-cards.

Figure 8

MATURITY OF P-CARD PROGRAMS

Almost half of the respondents (49%) have had their p-card programs for over three years



Challenges to Implementing P-Card Programs

In spite of the tangible benefits purchasing cards deliver, there have been hurdles to their widespread acceptance. On the supplier side, it has been lack of acceptance due to interchange fees. Even on the buyer side, challenges around controls and accounting applications have been hindering increased acceptance of p-cards.

Control Issues:

Lack of control is an issue that has scared some companies away from even offering p-cards to their employees. Many executives just do not like the idea of issuing cards to hundreds of employees when the company gets the bill and has the liability for paying for whatever has been bought. Issuing p-cards does not, however, mean throwing control out the window. In our experience, cards can be subject to a variety of controls, including:

- A limit on the transaction size - e.g., no more than \$100 can be spent in any one transaction.

- A limit on the number of daily, weekly, or monthly transactions—e.g., no more than three card transactions will be allowed in any one day.
- A limit on the value that can be charged in a given day, week or month—e.g., no more than \$250 per day may be charged to restricted cards.
- Blocking certain merchant categories where the card should never be used - e.g., no charges will be accepted for purchases at liquor stores, jewelry stores or car dealerships.

Because different people are expected to make different purchases and charge different amounts, the restrictions can be adjusted for each cardholder by card number. The more tightly the program is controlled, the less abuse can occur, but such controls also tend to keep programs smaller and reduce overhead savings, potential discounts and rebates. Ultimately, each company will choose its own balance point between control and savings, often making adjustments as it gains experience.

Accounting Application:

Another stumbling block is the issue of charging these small purchases to the right department, project or other accounting category. To alleviate this issue, most p-card providers also offer reconciliation tools to map transactions to the appropriate accounting codes.

Companies use several techniques to improve the accounting process,. One technique is assigning the card to a specific accounting category for which a cardholder is most likely to buy. If this person buys exclusively for that category, mapping the transactions charged to that card and that accounting category will be right 100 percent of the time. If that person makes only 90 percent of his or her purchases for that category, the company has a choice: it can simply allow all purchases charged to that account, on the grounds that a few misapplications don't really matter, or it can require the person to review his or her purchases and assign the purchases appropriately.

Alternatively, companies can issue multiple cards to persons who would buy for multiple accounting categories. The cardholder has to juggle these different cards and to choose the right one each time, but the accounting is straightforward. Companies can also use a combination of these two practices, based on buying needs and departmental preferences.

Table 3

OVERCOMING CHALLENGES ASSOCIATED WITH IMPLEMENTING P-CARD PROGRAMS

Problem: Loss of Control Over Purchases	Problem: Loss of Control Over Accounting Application
<p>Potential Solutions</p> <ul style="list-style-type: none"> • Transaction size ceiling • Limit on number of transactions per day/week/month • Limit of charge value per day/week/month • Blocking of inappropriate merchant categories 	<p>Potential Solutions</p> <ul style="list-style-type: none"> • Default to the principal accounting category for which cardholder frequently makes purchases • Use multiple cards for multiple accounts • Accounting tied to merchant category codes

Different Flavors of P-Cards

Corporate purchasing cards come in many different flavors, and are classified based on whether or not a piece of plastic is involved and how the card number information is provided to the supplier. This section looks at the different types of p-cards and highlights their differences.

Traditional Cards

Traditional p-cards are the most widely used corporate card mechanism for procurement purposes. Traditional cards involve the issuance of physical, plastic cards to employees that are authorized to make credit card transactions in the organization. Cards can be assigned to individuals or departments with configurable controls, such as dollars per month and per transaction, transactions per day and per month, type of spend, or specific suppliers.

Traditional cards are typically used at the point-of-sale or online at e-commerce websites and the individual or p-card administrator is responsible for reviewing the card statement to ensure that the charges are appropriate and then allocate them to the correct account code or budget.

Ghost Cards

In order to overcome some of the accounting issues associated with traditional p-cards, organizations have been using ghost cards. Ghost cards are also known as virtual cards, supplier cards, or AP push cards. They do not involve the issuance of a piece of plastic, but instead rely on the usage of unique card account numbers.

A ghost card is not issued to a particular employee, but each department is given a unique ghost card number, and purchases made using that card are automatically charged to that department. By centralizing all purchases for a particular department with a single account number, the payment and accounting processing is made easier.

Another practice that is prevalent when it comes to ghost cards is the issuance of unique ghost card numbers to preferred suppliers for ongoing use. When an employee needs to buy something from that supplier, they call, email or visit the supplier and make their purchase. The supplier automatically charges the ghost card for purchases made by the employee.

If the supplier sells to multiple business units or for different accounting categories, the supplier can collect the correct accounting information at the time of the sale and attach it to the record that would be reported back through the card network and the issuing bank, and it would be applied automatically to the right accounting category.

Ghost cards have gained popularity as they support transaction limits and merchant code blocking like purchasing cards, but additionally they allow program managers to track and reconcile card activity without having to put a piece of plastic in the hands of every buyer in the organization. Another advantage of ghost cards is that suppliers can provide direct details of charge information into corporate ERP systems, so that purchases can be properly allocated, even without a physical invoice.

Single Use Cards

A recent innovation in the area of commercial cards is the advent of single-use cards which are exposed uniquely for a specific transaction. Single-use cards can be plastic or virtual but they are mostly virtual cards.

In this case, the card system can reveal the card number to the merchant at the conclusion of a successful order or shipment. These cards can be used by buyers for settlement on shipment, settlement on receipt or serve as a non-integrated check replacement settlement mechanism. The heart of this payment mechanism lies in its ability to offer time-based and dollar-range controls for each transaction and to capture and append unique accounting information to the transaction record to automate the reconciliation process.

Instead of using a single card account number for each department or supplier, in this case, when payment has to be made, the system draws an account number from a pool of accounts and secures it with date and dollar range restrictions. If the supplier tries to overcharge the dollar amount or attempts to get payment before the specified date, the transaction is denied. The card pool design effectively eliminates the need for ghost and virtual cards, and allows buyers to use the same account for both partial shipments and recurring payments.

This provides a degree of security superior to ghost cards as it precludes suppliers from charging more than the amount pre-authorized, and effectively eliminates fraud losses as the card can only be used by the specified merchant. Once used, the pre-authorization request expires, and the account number is returned to the account pool.

Buyer-Initiated Card Payments

Another innovation in the corporate card realm is the introduction of buyer-initiated card payments. In a traditional supplier-driven card transaction, whether the card information is delivered at the beginning or the end of the AP process, the supplier has to take certain steps to initiate the event that starts the payment process.

Buyer-initiated card payments, on the other hand, turns the traditional seller-initiated transaction workflow 180 degrees by allowing buyers to drive the transaction. Buyers can send the payment file directly, from their ERP systems, with no point-of-sale transaction required and no need to show the card to the supplier. Under this scenario, the money is automatically deposited in the supplier's account, without any intervention on the seller side.

Another advantage of buyer-initiated card payments is that unlike point-of-sale p-card transactions, these transactions are approved prior to payment, allowing buyer organizations to apply all internal purchasing policies and approval rules.

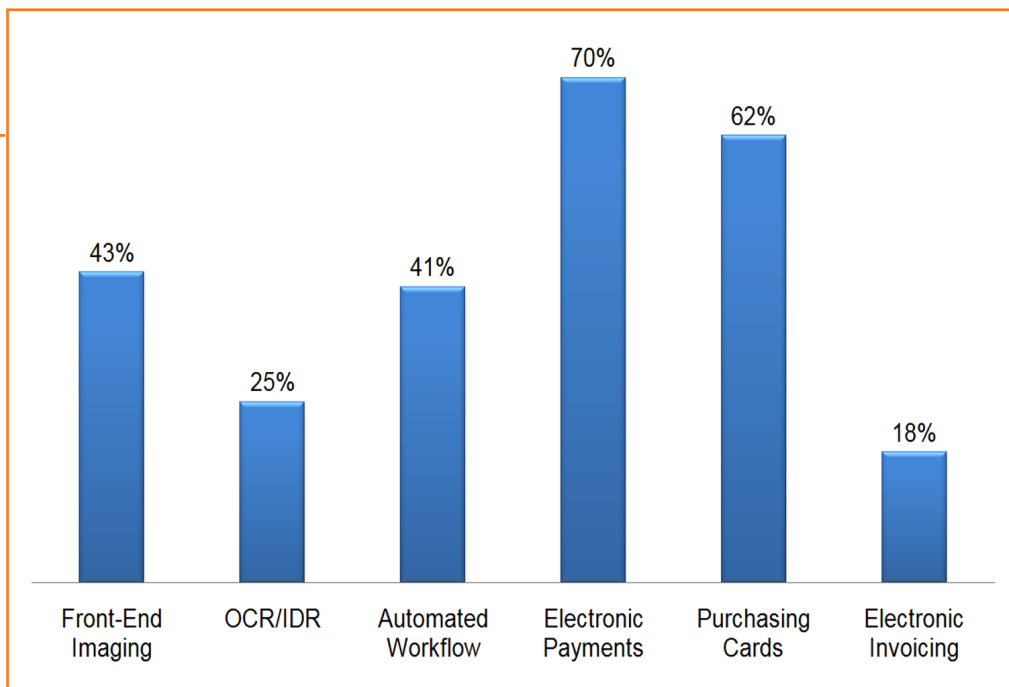
ePayables Innovations

Along with the evolution of electronic payment tools, we are noticing a number of innovations in the procure-to-pay space. Figure 9 shows the adoption of various technologies in the accounts payable space, based on PayStream survey results. Electronic payments via ACH and purchasing cards are the most widely adopted technologies in the AP space. One of the primary reasons for this high traction is that when compared to more comprehensive procure-to-pay implementations, electronic payment solutions are relatively easy and quick to deploy, are less expensive, and deliver a quick return on investment.

However, the emergence of innovative tools and technologies in AP automation has a direct impact on the uptick of electronic payments. Three related developments that support and complement electronic payments are electronic invoicing, dynamic payables discounting and multi-payment platforms.

Figure 9
ADOPTION OF VARIOUS AP AUTOMATION TECHNOLOGIES

Electronic payments via ACH and p-cards are the most used automation technologies in the AP department



Electronic Invoicing

Automation solutions that enable trading partners – buyers, suppliers and banks – to seamlessly exchange transaction-related information and funds are indelibly changing the invoicing and payables landscape. A new crop of electronic invoice networks are making significant inroads into reducing inefficiencies and driving costs out of companies' financial operations through the elimination of paper. These electronic invoicing solutions improve the invoice receipt-to-payment cycle by streamlining how organizations receive and approve invoices and make payments.

These new technologies have been given further impetus by the fact that the AP department is no longer considered just a cost center. Innovative financial managers are now recognizing AP automation as an area offering tremendous potential

to generate bottom-line improvements with processing acceleration and discount management abilities, better ability to monitor and manage spend, strengthen working capital positions, and build stronger trading relationships.

While the adoption of electronic invoicing is still limited to larger companies, we are evidencing this trend trickling downward to small and medium sized businesses for the following reasons:

- The evolution of hosted and Software-as-a-Service (SaaS) models has significantly lowered the upfront cost of implementing AP automation solutions and reduced the hassle of maintaining them.
- Realizing that removing paper from AP needs to be accomplished via a series of small steps - not a big bang - companies are leveraging and upgrading previous investments in AP technologies.
- The convergence of electronic invoicing and front-end invoice imaging presents organizations with a single, comprehensive solution that can manage both paper and electronic invoices through a common process.
- Value added-services delivered by e-invoicing solution providers around supplier recruitment have enabled buyer organizations to bring suppliers onboard more quickly.

Table 4

DEFINING DYNAMIC PAYABLES DISCOUNTING SOLUTIONS

DPD solutions are dynamic in more ways than one. They

allow suppliers to control the timing of payments.

Calculate discount fees and payment amounts dynamically based on the number of days remaining until the due date.

Provide the ability to dynamically capture discounts as the working capital needs dictate, rather than having to negotiate discounts in advance.

Allow trading partners to tap into an alternative source of working capital with the use of third party creditors who pay early on behalf of the buyer.

Dynamic Payables Discounting

A financial practice in place for years in parts of Europe is gaining acceptance in the United States, largely because of the technological innovations of a few, relatively new electronic invoicing and payment solution providers and collaborative bankers.

PayStream's analysts have coined the term "dynamic payables discounting," or dynamic discounting for short, to define this concept. Dynamic discounting solutions provide suppliers with the option of accepting early payments against any or all of their approved receivables, at any point, up to the maturity date for a discount fee. A portion of the finance charge or discount fee can be passed on to buyers. Our research reveals that this functionality has been rapidly gaining acceptance as it offers financing to suppliers at attractive rates while delivering an additional income stream to buyers – a win-win situation all around.

Many buyer companies are not nimble enough to take advantage of valuable discounts. Some seek to extend terms in order to preserve cash. Still others have investment alternatives so attractive that they outweigh the opportunity cost of missing a discount. Suppliers, on the other hand, too often find themselves financing sales by factoring their account receivables or through asset-based lending - both expensive sources of capital. Some suppliers, particularly smaller companies, don't enjoy either option and are frequently strapped for cash.

Dynamic discounting serves the cash management needs of buyers and suppliers alike. The solution providers create the technological framework to facilitate this process. The transaction can be self-funded by the buyer or a bank can stand in as a short-term lender. Through Web-based buyer-supplier networks, buyers are able to project compressed settlement terms through supplier discounts. Suppliers are able to pick and choose among an array of payment options for each outstanding invoice. Banks pay the bill and collect from the buyer the full original price minus a percentage of the discount savings; an arrangement often referred to as "revenue sharing."

According to our research, when third party financing is involved, buyers are able

to reduce their working capital requirements, some by as much as 40 percent, and suppliers gain access to capital at a more competitive rate than they are likely to obtain through a local bank.

Multi-Payment Platforms

One emerging payment trend that is breaking a number of traditional concepts around electronic payments is the emergence of multi-payment platforms for settlement that include commercial cards. Using these platforms, buyers can send the payments from their ERP systems through the provider to the supplier. Under this scenario, the money is automatically deposited in the supplier's account, either through a commercial card, ACH or wire transaction, without the need for any manual intervention from the supplier.

In the multi-payment platform situation, the buyer determines which suppliers to enroll in this platform and has the ability to monitor and/or deactivate suppliers at any time. The buyer also selects the payment method that each supplier is authorized to receive and picks the exact date for payment. The exact amount is then deposited on that date into the seller's account, without the need for plastic or card numbers, reducing keying errors. Another advantage of these platforms is that payment occurs after the accounts payable process, post matching or approval workflow, bringing another layer of control to the equation.

Buyer-Side Benefits

- Organizations can increase electronic payments and reduce checks, with minimal change to existing processes, resulting in a decrease in payment processing costs.
- Buyer organizations are in complete control of the payment process, being able to determine the exact timing and method of payment.
- Multi-payment platforms deliver increased payment security through the reduction of check fraud and account number masking.
- Buyers also have the flexibility of increasing days payable outstanding (DPO), improving cash conversion cycles and reducing cash flow volatility.
- Organizations are placed in a favorable position to leverage financial incentives such as rebates and early payment discounts.

Supplier-Side Benefits

- On the supplier side, multi-payment platforms simplify payment processing, through the elimination of check processing.
- These solutions also facilitate the capture of full remittance information on the supplier side, improving the payment reconciliation process.
- Suppliers are now in a better position to improve cash flow forecasting and reduce days sales outstanding (DSO).

Table 5

MULTI-PAYMENT PLATFORM PROCESS

1. The company uses current processes to procure goods and services.
2. Suppliers send invoices to the AP department
3. Invoices are matched/approved and entered into accounting system
4. Payments are batched and sent to the solution
5. Funds are deposited into supplier's account using the payment type selected by the buyer
6. Payment confirmation is sent to the buyer
7. Remittance information is delivered to the supplier

Learn from the Innovators

Convergence of ePayments

Stand-alone p-card and ACH programs are insufficient to meet the needs of the changing marketplace for ePayment solutions. The most efficient ePayment programs have harnessed a multi-channel strategy to attack the automation opportunity with a range of interconnected solutions which PayStream calls, Payments Convergence. PayStream believes the US disbursement market is converging on an expanded set of payment solutions driven by the need for efficiency gains, working capital improvements and improved visibility. PayStream recommends that organizations should examine the following best practices to gain maximum benefit from their electronic payment programs:

Conduct regular spend analysis and segmentation.

Spend analysis provides detailed spend data that is actionable and can identify categories for ACH and P-Card expansion, as well as enables them to identify instances of non-compliance with policy, procedures, or contractual terms. Organizations should assemble a cross-functional team with representatives from finance, procurement, and treasury to develop annual goals. Companies should then focus on growing electronic payments to suppliers in several targeted tiers.

Enhance Payment Monitoring and Controls.

Very few of the companies we have surveyed have robust control mechanisms to monitor payments – especially to support growth in the number and type of transactions. New tools are now available, which incorporate additional control and reporting structures to handle alerts, workflow and payment tracking across payment types.

Establish ePayments as the standard for conducting business with key suppliers.

PayStream research found that innovator companies are much more likely to have defined electronic payments as the standard means of conducting business with strategic suppliers. This, in turn, promotes compliance with internal procurement and payment policies, and reduces maverick spend.

Secure executive sponsors for the P-card program.

P-cards streamline both ends of the procure-to-pay cycle. Organizations should develop a business case for p-cards by calculating the return-on-investment from such a program, and then secure executive sponsorship to achieve the associated cost savings. Without executive sponsorship in place, organizations may find it difficult to drive the implementation of a p-card program.

Designate a P-card administrator and empower the position.

Many administrators spend too much time on program administration, and thus only a limited amount on expansion and growth. The administrator should not only be responsible for the day-to-day tasks related to the programs, but should be responsible for the continuous expansion, compliance, and sale of the program to the internal stakeholders and external suppliers.

Promote cross-functional collaboration among key stakeholders.

Cross-functional coordination among key stakeholders such as accounts payable, procurement, finance, treasury, and suppliers establishes an environment where key information flows easily between these stakeholders and facilitates achievement of corporate goals.

Payments Convergence Conference: PayStream has created the annual ePayments Convergence event to meet the needs of sophisticated finance professionals who are aggressively seeking to improve their penetration of ePayments and desire high-quality information to drive decision making. This two day event is held in June each year to showcase leading practices by corporate innovators.

For more information, go to www.paystreamsummit.com

Electronic Payments Solution Functionality

Electronic payments solutions deliver a range of functionality from supplier enrollment and management to payment processing and remittance detail delivery. PayStream Advisors has identified the following functional components and value-added services that are usually offered by ePayment technology providers:

Supplier Enablement and Enrollment:

As identified earlier, supplier adoption is key to the success of any electronic payment program. In best case scenarios, the application and the solution provider:

- Deliver vendor segmentation analysis to identify suppliers who are most likely to switch to electronic payments and develop activation campaigns to recruit suppliers to the solution.
- Offer a quick, easy, and painless online enrollment process. Support many-to-many relationships, allowing suppliers to interact with multiple buyers at the same time.
- Provide additional services, such as recruiting suppliers for dynamic discounting and segmentation analysis to identify high spend suppliers who may offer significant early payment discounts.

Electronic payment solutions offer functionality to allow suppliers to enroll themselves by logging into the application to provide bank account and registration information. Alternatively, buyers can manually enter supplier information or import the same from their ERP or AP systems. In some cases, vendors go a step further to authenticate the bank account information provided by suppliers before payments are initiated, either by verifying a cancelled check or by directly calling the supplier's bank.

Figure 10

ELECTRONIC PAYMENTS SOLUTION FUNCTIONALITY

ePayment solutions streamline and optimize the payment process and deliver tangible results around processing efficiencies, cost savings and working capital improvements.



System Integration and Data Mapping:

Many buyers and suppliers are hesitant to use electronic payments owing to concerns around integration with existing accounting infrastructure. To overcome this barrier, electronic payment technologies delivers seamless functionality to integrate the application with AP technologies on the buyer side and AR technologies on the seller side.

These solutions also facilitate interaction between buyers and suppliers by:

- Delivering built-in adapters for major ERPs like SAP and Oracle, while providing custom integration for virtually any accounting system, including home-grown and legacy applications.
- Providing any-to-any data mapping between buyer and supplier document formats (payment details, remittance information, etc.), at the time of supplier enrollment itself.
- Extracting payment and remittance information automatically from buyer systems and making it available on an online portal or passing it directly into suppliers' accounting applications.

Online Portal and Supplier Self-Service:

Through the integration of self-service supplier portals, electronic payments solutions can truly drive collaboration between buyers and suppliers. These portals accelerate the exchange of information between trading partners and provide improved visibility and control over financial transactions.

- Suppliers' ability to log into an online portal and track payment status in real-time strengthens the visibility and control they have over their accounts receivables processes.
- They receive notification immediately upon completion of the buyers' payables approval process, allowing them to monitor and assess their receivables, as needed.
- Suppliers can use the portal to also manage their profiles and banking information and to notify buyers of any changes.
- And for the buyer, this translates into a reduction in resources required to resolve discrepancies and respond to inquiries into invoice and payment status.

Payment and Remittance Processing:

ePayment solutions deliver robust functionality to automate the steps that buyers take to initiate, post, and execute payment, including preparation, processing, and submission of the payment file to the bank. Some solutions also deliver capabilities around consolidation of all payment processing and transaction information enterprise-wide, including sophisticated multi-bank reporting for a single view of cash balances, as well as provide support for international and multi-currency payments.

Payment automation solutions also provide comprehensive functionality around remittance delivery to suppliers by:

- Allowing suppliers to specify and change the format in which they would like to receive the remittance detail.
- Providing functionality for suppliers to manage whether they want the information to be available on the online portal or sent directly to their ERP systems.

be installed on the client side. BIP connects to any ERP or back-end accounting system. The ease of use of the solution also ensures that users do not require extensive training to start using the platform.

Supplier Management: Due to the company's long-standing, direct relationships with millions of merchants, American Express is able to manage the end-to-end enrollment process for 100 percent of targeted suppliers. American Express provides a dedicated supplier enablement team to help with enrollment strategy, maximizing adoption, and ongoing support.

Payment Workflow: The BIP solution allows clients to maintain their existing procurement and invoicing workflow processes. After invoices have been approved, the buying organization carries out a payment run, like it would to produce an ACH or a check file and sends a standard payment instruction file to American Express for payment execution. The solution is designed to ensure buyers have complete control over the exact date, amount and payment method, which will be used to settle outstanding invoices with each and every supplier.

Security: BIP provides clients with the efficiency of electronic payments, while at the same time delivering additional security by eliminating the need to exchange card account numbers with suppliers. Instead virtual card numbers are housed within the American Express payment portal, limiting the amount of sensitive information that needs to be shared via email, fax, or paper documents. Access to the payment portal is also secure, requiring users to have a valid ID and password.

Working Capital: BIP can help a company take the next step in improving its working capital by extending its days payable outstanding (DPO). The DPO extension is driven by the float benefits associated with a card program. American Express pays the supplier immediately thereby giving it a payment acceleration, while the cardholder only pays American Express on the agreed terms after the monthly card statement.

American Express® Reporting and Analytics

American Express reporting and analytics tools are configured to the buyers' needs based on the solution(s) implemented. American Express provides a full suite of standard reports and provides customers with the ability to create customized reports with full interactive functionality to query, filter, and sort spending data as needed. The tools provide access to market-level or global spending information with transaction-level data from over 120 countries and summary-level data from 39 countries. Buyers can choose to access standard reports (authorizations, declines, transaction data, etc.) for each American Express solution separately (e.g., Buyer Initiated Payments or Corporate Purchasing Card) or in a consolidated fashion across all of the commercial card solutions. Reports are available in Adobe Acrobat PDF format or can be downloaded into Microsoft Excel.

American Express® Implementation and Support

American Express has a strong track record of deploying solutions in the marketplace and leverages its extensive resources to work with customers on identifying optimal implementation plans. Implementation of American Express solutions are based on the unique needs, processes, and systems of each client. The more integrated solutions can typically be implemented in 8-10 weeks. To ensure a smooth transition and drive rapid adoption of solutions, American Express provides tailored training to both its customers and its suppliers.

Bottomline Technologies Overview

Bottomline Technologies (NASDAQ: EPAY) provides collaborative payment, invoice, and document automation solutions to corporations, financial institutions, and banks around the world. The company's solutions are used to automate and manage processes involving payments, invoicing, global cash management, supply chain finance, and transactional documents. Organizations trust these solutions to meet their needs for cost reduction, competitive differentiation, and optimization of working capital. The company has more than 9,000 global customers, with offices in North America, EMEA and Asia-Pacific.

Bank of America purchased Fleet in 2004 and operated the PayMode service until September of 2009 when Bottomline Technologies acquired the product from Bank of America. Through the PayMode acquisition, Bottomline Technologies has been able to complete its order-to-pay offerings by integrating the Bottomline Business eXchange (BBX) and PayMode platforms. Bottomline will continue expansion of the product offering by presenting next-generation solutions for fully integrated payables automation, including expansion of its global capabilities in both payments and invoicing.

PayMode is a SAAS offering and is marketed and sold by Bottomline's Corporate solutions group across all vertical markets. Additionally, Bottomline has a key strategic relationship with Bank of America who sells the solutions to its Treasury clients.

Table 7
AMERICAN EXPRESS COMPANY AND SOLUTION INFORMATION

Company Name	Bottomline Technologies
Website	www.bottomline.com
Founded	1989
Headquarters	Portsmouth, NH
Number of Employees	725
Sales Contact	info@bottomline.com 1-800-472-1321
Solution Name	PayMode

Bottomline Technologies PayMode

PayMode is a business-to-business electronic invoice and payment network of more than 90,000 active, authenticated suppliers. The PayMode solution supports a number of electronic payment methods, including ACH, card and Wire transactions. If the client chooses, payments can also be made via checks. By transforming paper (invoices and checks) into electronic transactions, PayMode reduces processing costs and extends cash flow benefits.

Following are some of the key features of the PayMode solution:

Integration: PayMode is able to integrate with all ERP and AP automation systems. A few major systems that the solution has been integrated with to date include SAP, Oracle, JD Edwards, Lawson, GEAC, PeopleSoft, Banner, Elite, Solomon, Great Plains, AMS and McKesson. PayMode has also been successful in integrating with a number of “homegrown” and legacy systems.

Supplier Management: Enrollment in the PayMode network is free to the supplier. Bottomline Technologies provides professional services that include technical integration of clients’ payment applications to PayMode, and development of a custom set of direct marketing and enrollment services for the purpose of rapidly and efficiently enrolling suppliers in the PayMode electronic payment network.

The key success factor in the PayMode network, which today boasts more than 90,000 suppliers and a growth rate of 46 percent for 2009, has been its ease of use and the flexibility of the product platform. This ease of use also translates to high rates of conversion once suppliers are enrolled. Within 12-16 weeks of beginning the vendor marketing campaigns, clients typically see between 50 to 70 percent of their suppliers successfully receiving ePayments via the network.

Security Measures: PayMode incorporates a number of security features including:

- Digital signatures and certificates with 2048-bit encryption;
- User access controls including password best practices and functionality-based privileges;
- Multi-approval payment workflow utilizing digital certifications;
- Additional levels of database encryption for confidential data types (passwords, card, bank account, SSN, etc.);
- Controls established for web portal user account log-in (repeated attempts, lockouts, alerts, etc.);
- Multi-tiered authentication of all enrollments including bank account verification, signer authority, company validation, and OFAC checking.

Payment Workflow: Incoming invoices are routed to defined approval groups for decision. General Ledger coding can be applied based on client-defined rules for each approval group. PO matching and PO flip are also offered as client options. Additionally, discount options are offered to both the supplier and the buyer. Once approved, the invoices are integrated into the client’s ERP application for payables processing. Once the payables process is complete, payment instructions are passed back to PayMode for settlement.

PayMode offers several options for clients to manage audit and/or financial payment controls within the application. There are multiple levels of approvals that can be applied at the file or payment level. Payments are processed only after the full approval process has been completed. Clients have the ability to review, approve, or reject files and/or payments. Financial limits can also be set to forewarn the client when payment instruction files have been received that exceed normal processing amounts. Once approval has been provided, payments are processed and notification is sent to the supplier.

Working Capital Management: The current PayMode offering includes dynamic discount capabilities. A planned expansion to include Supply Chain Financing will be completed later this Spring. Further, Bottomline's full invoice-to-payment service provides better working capital management and more efficient terms management, as well as greater visibility into the order-to-pay process.

Remittance Information: Unlike traditional ACH restrictions for remittance detail, there is absolutely no limit to the amount of data that can be linked to a PayMode payment. Bottomline works with suppliers to deliver data in the precise format required, allowing them to post and reconcile the payment quickly and accurately. Options include online reports, online downloads such as XML, .csv, .xls, BAIV2, and EDI 835, CCD+ and CTX for ACH, as well as proprietary receivables output files.

Dispute Management: The solution delivers a collaborative interface to expedite dispute resolution between buyers and suppliers. Discussion threads allow buyers and sellers to exchange information when an incoming invoice needs repair (dispute) or needs to be resubmitted (reject). Email and online messaging tools are offered to facilitate the dialogue.

Reporting and Analytics: The PayMode solution comes bundled with a robust reporting module. There are more than 20 standard reports, available to any user of the PayMode service, based on their granted privileges for report viewing. Further, users have the ability to generate custom reports by filtering on unique search requirements each time they access the PayMode online reports. Reports can be printed as .pdf, or downloaded in a number of different formats (.xml, .csv, excel, BAIV2, EDI 835).

Implementation and Support: An average PayMode implementation is 30-60 business days. A key success component of the PayMode implementation process is the ease of use for the client. PayMode does not require specific file formats; it accepts virtually all native file formats and provides a file translation service to ensure limited IT resource requirements by the client. Additionally, Bottomline provides complete supplier on-boarding services to ensure successful adoption, including handling of any file formats the supplier may require for delivery of remittance data.

The baseline PayMode service consists of a professional service engagement that addresses the clients total invoice and payment needs. Additionally, Bottomline Implementation Specialists work with clients to understand their existing AP processes and ensure maximum utilization of the features within PayMode - all with minimal impact to daily AP processes/controls. At the end of the implementation, a User Acceptance Test is executed and online training is conducted for all users of the service who were not part of the implementation project team. Online help is also available after implementation along with live customer support.

P-Card Solution Functionality: PayMode accepts and processes downstream to the card processing platform used by its clients. The features and functionality of the particular card offering would be specific to the financial institution that supports the client's card services.

Case Study: State of Mississippi

State of Mississippi is a PayMode customer sold through the Bank of America Merrill Lynch channel.

The Client: The State of Mississippi's Department of Finance and Administration (DFA) helps the Governor, State agencies and the State Legislature provide effective, efficient and fiscally sound government to the citizens of Mississippi. The agency has overall management responsibility for the State's \$11.2 billion in annual disbursements to over 30,000 business and government payees.

The Requirement: Operating as the central disbursement authority for over 125 state agencies, DFA's mission and organizational culture promotes continual improvement in operational efficiencies and cost reduction. Having identified paper processing as a source of inefficiency, DFA wanted to reduce the amount of paper involved in its disbursement process – much of it stemming from the use of paper checks and remittance documents. Additionally, DFA's Electronic Funds Transfer (EFT) platform was not adequately supporting the amount or complexity of remittance information associated with payments.

In addition to the need to convert a paper-based payment process to a more streamlined electronic process, DFA identified other important requirements:

- Ensure that up-stream State agencies could continue to manage their relationships with the State's 30,000+ business and government payees – vendors, suppliers, service providers and Mississippi- domiciled municipalities – without disruption.
- Allow State payees of all sizes to accept electronic payments, without requiring changes to their existing bank accounts or internal processes.
- Maintain the State's existing banking relationships in Mississippi.
- Enable their existing Statewide Automated Accounting System (SAAS) to initiate electronic payment requests and send remittance information without requiring a significant technology investment or system changes.
- Solicit and encourage State payees to accept electronic payments without dedicating resources to the process.
- Implement a solution quickly and inexpensively.
- Use a HIPAA-compliant payment solution.

The Situation: Invoices are processed and approved for payment by each State of Mississippi agency, and associated remittance information is forwarded to DFA for centralized disbursement processing. Payments are made in both check and ACH formats. Payment information is made accessible to the agencies since each maintains its own relationships with the State's vendors.

The Solution: DFA conducted a search for an electronic payment solution. After learning about PayMode, DFA found an answer to its electronic payment needs.

PayMode provided DFA the following benefits and features:

- A proven alternative to paper-based processing.
- Experience with state and municipal implementations.
- Bank neutral processing for both the State and its vendors.

“Through PayMode®, the State of Mississippi implemented a state-of-the-art electronic payment and remittance system without the headaches or overhead involved in the implementation of an ERP. The staff has been exceptional. Every time we need or question something, they immediately bring the folks who can get it done to the table and just get it done.”

— Cille Litchfield,
Deputy Executive
Director,
Mississippi
Department of
Finance and
Administration

Case Study: Firestone

The Challenge: Firestone recognized that it could achieve significant cost savings by reducing the number of supplier checks it was initiating in favor of lower cost electronic payments.

Greater use of electronic payments would also allow Firestone to integrate its SAP financial system with bank payment systems, take advantage of payment discounts offered by its suppliers more frequently, improve its cash forecasting capabilities, simplify reconciliation, reduce check fraud, and generally improve supplier relationships - particularly with those suppliers who were already requesting that Firestone begin paying them electronically.

The Solution: Vendorin delivered on its commitment to convert at least 75 percent of Firestone's supplier payments from check to electronic payments - and did it in 90 days.

The Vendorin supplier analysis team performed a review of Firestone's vendor master file to determine which suppliers were both a good fit for conversion to electronic payments and would deliver the greatest economic impact for Firestone once converted to electronic payments. Once targeted suppliers were selected, the Vendorin supplier marketing team began a six-week Firestone branded supplier outreach effort which included email, inbound and outbound telesales, and a secure website for supplier education and enablement.

At the same time, the Vendorin integration team began working with Firestone and its bank to ensure that Firestone would be able to create payment files and the bank would be able to process these payment files by the end of the conversion program.

In August 2009, Firestone began processing electronic payments as a result of the Electronic Payment Enablement Program carried out by Vendorin. Firestone is now delivering tens of millions of dollars of supplier payments to nearly 1,500 suppliers each month. Firestone's bank is happy to be processing a greater number of electronic payments and Firestone's suppliers are happy to be receiving not only their payments electronically but also the remittance information needed to reconcile their payments from Firestone.

The Results

- Vendorin enabled more than 50 percent of targeted suppliers for electronic payment in less than 90 days.
- Integrated SAP financial system with bank payment system to support electronic payments.
- Eliminated more than 75 percent of supplier checks.
- Reduced the cost to initiate supplier payments by more than 80 percent.

"This project wouldn't have been possible without the technology, supplier outreach services, and market expertise Vendorin delivered. While they focused on communicating with our suppliers and enabling them for electronic payments, we were able to stay focused on doing our jobs without disruption. With the quick implementation, big ROI, and a fast payback, this project really delivered."

- Supervisor Cash Management, Firestone Diversified Products

Evaluating ePayments Vendors

While the benefits of electronic payments are undisputed, selecting the right electronic payment vendor is a challenging task. It is critical to analyze what various technology solution providers offer and how the functionality matches with an organization's business needs. This section is helpful in identifying the most appropriate solution provider for your business needs:

Company Overview

In addition to learning how long a company has been in business, it is helpful to know whether ePayments is a core offering for the company and to understand growth plans and the future vision of the service provider.

Ask the following questions:

- How long has the company been in business? Since when has it been offering payment automation solutions?
- How many customers does it have, and who are they?
- How is it funded? If it is a public company, look at the prospectus.
- How does it plan to grow, and are there any mergers or acquisitions on the horizon?
- How will it manage growth and the resulting increased customer demand on its systems?

Solution Overview

Ask the following questions:

- What type of payment methods does the solution support – check, ACH, commercial cards, and wire transfers?
- Does the solution support a single Web-based interface to process different payment types?
- How does the system interface with ERP and/or AP automation systems?
- What security measures are incorporated in the solution?
- Is the solution provider including any additional features and functionality in the forthcoming versions of the solution?
- How does the solution provider work with suppliers reluctant to accept electronic payments?
- How does the solution support the exchange of remittance information?
- What payment workflow capabilities are available as part of the solution?
- What capabilities does the solution offer to facilitate dispute management?
- Does the solution deliver a shared supplier network and/or portal? If so, how many suppliers are currently enrolled on the network?
- Does the provider offer any value added services designed to increase

supplier adoption?

- Does the solution include a reporting module? How many standard reports are available? What reports are bundled with the solution?
- Can users generate custom reports and save the queries for reuse later?
- Can data from the solution be downloaded into third party reporting tools like Crystal Reports for further analysis?
- What out-of-the-box payment-related metrics/KPIs does the solution provide to buyers and sellers?

Specifically, with respect to commercial cards, ask the following questions

- What are the different types of cards available – one card, p-cards, corporate/T&E cards, fleet, payroll etc?
- Does the solution support ghost cards? What features and functionality are available around ghost cards?
- Does the solution support virtual payment accounts? If so, how many customers use this functionality?
- Describe the tools available to monitor the commercial card program. What tools are offered to the cardholder? The commercial card program manager? The controller of the buying organization?
- What reports are standard? What categories can program administrators isolate and analyze in standard reporting? What tools does the solution offer for ad hoc reports?
- What are the different ways in which the provider enables or supports customers to get Level 2 and 3 data? In case the merchant is not providing Level 2 and 3 data, how does the provider facilitate availability of such information?
- What services does the provider offer that can link card transactions to specific lines in the GL? With which ERP and accounting systems does the solution already have GL interfaces?
- What are the different ways in which card usage can be controlled — transaction limits, daily, weekly or monthly limits, merchant category codes, etc.
- Does the program screen transaction activity for fraud patterns?
- Does the provider company offer any supplier recruitment/on-boarding support with the program? How successful has it been in convincing its customers' suppliers to accept cards? Are there any specific industry verticals that are targeted for merchant acceptance?

About PayStream Advisors, Inc.

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to business process automation with the goal of making objective, analytical, and actionable recommendations. Wherever business process automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 or visit us on the Web at www.paystreamadvisors.com.

About the Analyst

As Research Director, Sush Koka manages PayStream Advisors' overall technology research effort. She writes research reports, leads client briefings, and participates in consulting engagements in the purchase-to-pay and order-to-cash functional areas. Her deep experience both as a market analyst and a consultant enables her to analyze trends in financial services automation, assess feasibility of products and drive research activities. Her areas of focus include invoice and payment management, travel and expense management, and business process automation. She has extensively researched and written reports in these areas, and her work has been published in trade magazines such as Supply & Demand Chain Executive and DOCUMENT Magazine.

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